

ASC Methodology: BPA Staff Strawman

BPA is considering revisiting the 1984 Average System Cost Methodology (ASCM) in a consultation proceeding under section 5(c) of the Northwest Power Act. The consultation process to revisit the 1984 ASCM will be guided by 7 principles that BPA will use to determine the structure of the new ASCM and guide decisions regarding individual issues that are a part of this proceeding. These principles are that the new ASCM:

1. Must be legally sustainable.
2. Must be equitable.
3. Should not be dependent upon new legislation to succeed.
4. Benefits are relatively predictable over time.
5. Process to determine ASC must be transparent so that parties can see how benefits are determined.
6. Must be completed so that BPA can offer simultaneous 20-year contracts to all customers by August 2008.
7. Administration and review of individual ASC filings must not impose excessive costs or burden on BPA or its customers.

BPA may not be able to completely satisfy all principles during development of a new ASCM.

The following is offered as a starting point for a dialogue with BPA customers and interested parties on the overall framework and mechanics of a new ASCM. We will defer discussion of individual issues such as inclusion of return on equity, income taxes and transmission costs to future meetings. We welcome suggestions to this strawman as well as different approaches to the ASCM.

The basic construct of the new ASCM could include:

- An electronic filing template that exchanging utilities will use to submit their ASC filings to BPA on an annual basis July 1st of every year for the calendar year just concluded.
- An historical base year ASC filing made by each exchanging utility using the BPA template with data from, for example, its most recently filed FERC Form No. 1, annual 'Results of Operations' or similar filings made by exchanging utilities with their state regulatory commission, and other data required to meet BPA's statutory obligations under section 5(c) of the Northwest Power Act. The same data will be required from public utilities and taken from similar sources.
- An attestation by a responsible officer of the filing utility concerning the accuracy and reliability of the data analogous to Sarbanes-Oxley will be required.

- A list of additional information, schedules, studies and other such support documentation to ensure proper functionalization of exchangeable costs and exclusion of costs that are not exchangeable.
- The exchanging utility will make its ASC filing by July 1 of each year. This will allow BPA to discuss issues with the utilities outside of a BPA rate case. In addition, the annual filings will allow BPA to maintain a data base to be used to normalize costs for ASC forecasts.
- Exchanging utilities that operate in multiple jurisdictions will consolidate the costs attributed to their respective customers and service territories that are within BPA's service territory and file a single ASC for the utility's entire exchange load. The methodology will address the allocation of costs between regional and extra-regional loads.
- In recognition that any new methodology will not be finalized until after ASCs will be needed for the Supplemental WP-07 Rate Case, BPA will populate the template and make ASC determinations based on its analysis of historical public financial information to forecast ASCs for FY 2009.

Rate Period ASC Determination:

- The component parts, e.g., individual FERC Form 1 accounts of the base year ASC, will be escalated by ASCM-determined O&M indices, market price forecasts, fuel price forecasts, interest rate forecasts, general inflation forecasts, etc. to the test year(s) of the BPA rate case.
 - Operation and maintenance costs will be based on a projection or forecast using external source indices (e.g., Global Insights) .
 - Other forecasts or projections used to escalate individual components of an ASC will be consistent with those used in determining BPA's rates.
- Certain elements of costs will be normalized using a rolling five-year historical basis.
- There will be a forecast ASC for each year of the BPA rate period plus four additional years to perform the 7(b)(2) rate test.
- Sources of the escalation factors used to escalate a utility's base year ASC to the test year of the BPA rate period will be the same as those used to develop the ASC forecast for the 7(b)(2) rate test.
- Since ASCs are determined using an historic-year basis, anticipated new plant additions will not be incorporated into ASCs until they affect the historic year filing. However, we do not believe this distorts ASC determinations significantly because new plant costs are likely to be similar to the market-priced purchase power that would otherwise be used to serve load growth.

Rate Case and Intervention:

- As a part of its general rate proceeding, BPA will file testimony and exhibits to support its draft ASC determinations and forecasts.
- If the exchanging utility disputes BPA's determination, it will be allowed to file testimony to present its case.

- Other parties in BPA's rate case will be allowed to examine each utility's ASC filing, supporting data and calculations and present testimony challenging the utility's ASC filing and BPA's ASC determination.

Within Rate Period Adjustments:

- Once individual utility ASCs are determined in a BPA rate case, they will not change until new BPA rates are implemented at the conclusion of a subsequent BPA rate case (assumption is that a new rate case will occur every two years).
- Adjustments of individual utility ASCs during the rate period will be limited to purchase or sale of a utility service territory.
- BPA is proposing no true-ups to the rate case-determined ASCs or benefit levels.

Exchange Loads:

- The utilities' annual filings will include their Contract System Load and Contract Exchange Load for the historical year plus forecasts of those loads for the ensuing 8 years.
- The final disposition of the exchange load forecast in the rate case will set the exchange loads for the rate period.
- The exchange loads for the rate period will be modified only as a result of service territory sale or annexation.

New Large Single Load Schedule

Part of each utility's ASC filing will include a schedule showing the monthly kW demand and kWh energy for each of its customers whose kW demand exceeded 5 MW from September 1, 1979, to the present. The data from 1979-2007 will be included only with the exchanging utility's first ASC filing under the new ASCM. Subsequent ASC filings will include annual updates. BPA will work with its exchanging utility customers to ensure that the confidentiality of this data is protected.

BPA needs this information to comply with section 3(13) of the Northwest Power Act governing New Large Single Loads (NLSL), which states:

...any load associated with a new facility, an existing facility, or an expansion of an existing facility, (A) which is not contracted for, or committed to, as determined by the Administrator, by a public body, cooperative, investor-owned utility, or Federal agency customer prior to September 1, 1979, and (B) which will result in an increase in power requirements of such customer of ten average megawatts or more in any consecutive twelve-month period.

The cost of resources used to serve a NLSL will be subtracted from the exchanging utility's Contract System Cost, based on the exchanging utility's Avoided Cost or similar

filing with its state regulatory commission. A reasonable method to determine a utility's Avoided Cost is to use market prices.

Extra-regional long-term firm sales

Part of each utility's ASC filing will include a detailed schedule of firm sales of electricity for a period greater than three years to customers outside BPA's service territory. These firm sales must be in effect during the test year of the BPA rate case. The cost of resources used to serve long-term firm sales outside the region will be subtracted from the exchanging utility's Contract System Cost, based on the exchanging utility's Avoided Cost or similar filing with its state regulatory commission.

The current method of dealing with market activities is to credit all long-term firm and short-term firm sales for resale against the utility's exchangeable costs.

Terminated Plant Costs

Any investment (capital or expense) in production plant and/or fuel supply associated with a terminated plant will not be included in the ASC.